

Consolidated Financial Statements and Report of Independent Auditor's

123Stores, Inc.

Year ended March 31, 2018

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REPORT OF INDEPENDENT AUDITOR'S

Board of Directors

123Stores, Inc.

We have audited the accompanying consolidated financial statements of 123Stores, Inc. (a Delaware corporation), which comprise the consolidated balance sheet as of 31 March, 2018 and the related consolidated statement of income, statement of comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of 123Stores E-Commerce Private Limited, wholly-owned subsidiary of the Company, which statements reflect total assets constituting approximately 3% of the Company's consolidated total assets as of March 31, 2018. Those statements, which were prepared in accordance with the Indian Accounting Standards, were audited by other auditors, in accordance with International Standards on Auditing, whose reports have been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of 123Stores E-Commerce Private Limited, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for 123Stores E-Commerce Private Limited, prior to these conversion adjustments, is based solely on the reports of the other auditors, and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of 123Stores, Inc. as of March 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton India LLP.
Mumbai, India
May 27, 2018



123Stores, Inc.**Consolidated Balance Sheet**

(All amounts in US\$, unless otherwise stated)

	<u>March 31, 2018</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,176,895
Accounts receivable, net	1,679,764
Inventories	19,011,725
Prepaid expenses and other current assets	307,408
Total current assets	<u>24,175,792</u>
Property and equipment (net of accumulated depreciation of \$ 130,544 as of March 31, 2018)	249,620
Intangible assets (net)	470,500
Long term loans and advances	322,983
TOTAL ASSETS	<u>\$ 25,218,895</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	\$ 5,345,901
Deferred revenue	360,191
Accrued expenses and other current liabilities	2,426,688
Total current liabilities	<u>8,132,780</u>
Long term debt	12,193,899
Other long term liabilities	51,959
TOTAL LIABILITIES	<u>\$ 20,378,638</u>
Stockholders' equity:	
Common stock, \$0.01 par value, 100,000,000 shares authorised, issued and outstanding at March 31, 2018	\$ 1,000,000
Retained earnings	3,842,885
Accumulated other comprehensive income	(2,628)
	<u>4,840,257</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 25,218,895</u>

The accompanying notes are an integral part of these consolidated financial statements.

123Stores, Inc.**Consolidated Statement of Income**
(All amounts in US\$, unless otherwise stated)

	<u>Year ended March 31, 2018</u>
REVENUE	
Revenue from operations	\$ 179,398,290
EXPENSES	
Cost of goods sold	122,714,781
Shipping and handling expenses	27,196,380
Gross profit	<u>29,487,129</u>
Sales and marketing expenses	23,079,809
Operations, technology, general and administrative expenses	2,963,993
Depreciation and amortisation	72,769
Operating profit	<u>3,370,558</u>
Interest and financing expenses	410,015
Other income, net	<u>(6,226)</u>
Income before taxes	<u>2,966,769</u>
Income tax expense	935,660
Net income for the year	<u>\$ 2,031,109</u>

The accompanying notes form and integral part of these consolidated financial statements.



123Stores, Inc.**Consolidated Statement of Comprehensive Income**

(All amounts in US\$, unless otherwise stated)

	Year ended March 31, 2018
Net income for the year	\$ 2,031,109
Other Comprehensive Income	
Opening transitional actuarial adjustments	4,563
Foreign currency translation adjustment	(5,949)
Total Comprehensive income	\$ 2,029,723

The accompanying notes form an integral part of these consolidated financial statements.



123Stores, Inc.

Consolidated Statement of Changes in Stockholder's Equity

(All amounts in US\$, unless otherwise stated)

	Common stock		Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
	Number of shares	Amount			
Balance - March 31, 2017	100,000,000	\$ 1,000,000	\$ (1,242)	\$ 1,811,776	\$ 2,810,534
Net income for the year	-	-	-	2,031,109	2,031,109
Net other comprehensive loss for the year	-	-	(1,386)	-	(1,386)
Balance - March 31, 2018	100,000,000	\$ 1,000,000	\$ (2,628)	\$ 3,842,885	\$ 4,840,257

The accompanying notes form an integral part of these consolidated financial statements.



123Stores, Inc.**Consolidated Statement of Cash Flows**

(All amounts in US\$, unless otherwise stated)

	Year ended March 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income for the year	\$ 2,031,109
Adjustments to reconcile net income to net cash provided by/(used in) operating activities	
Deferred tax	(27,064)
Depreciation and amortisation	72,769
Remeasurement of employee benefit obligations	7,959
Changes in operating assets and liabilities:	
Accounts receivable	(470,711)
Inventories	(12,650,831)
Prepaid expenses and other current assets	110,113
Long term loans and advances	(136,754)
Accounts payable	2,687,793
Deferred revenue	(71,060)
Accrued expenses and other current liabilities	(176,123)
Other long term liabilities	1,189
Net cash used in operating activities	(8,621,611)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment (net)	(57,693)
Development costs of intangible assets	(470,500)
Net cash used in investment activities	(528,193)
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of borrowings	-
Proceeds from borrowings	9,693,899
Net cash provided by financing activities	9,693,899
Effect of exchange rate changes on cash and cash equivalents	(1,386)
Net Increase in cash and cash equivalents	542,709
Cash and cash equivalents at beginning of the year	2,634,186
Cash and cash equivalents at end of the year	\$ 3,176,895
Supplemental cash flow disclosure	
Cash paid during the year for:	
Interest and financing expenses	\$ 410,015
Income taxes paid	\$ 797,603

The accompanying notes form an integral part of these consolidated financial statements.



123Stores, Inc.

Notes to the Consolidated financial statements
(All amounts in US\$, unless otherwise stated)

1. DESCRIPTION OF BUSINESS

Nature of Business

123Stores, Inc. ("the Company") is engaged in the business of online retailing with primary focus on the US online retail market. The Company sells products through its own website 123Stores.com as well as through third party marketplaces such as Amazon, E-Bay, Sears and NewEgg etc. The Company's offering includes products spanning across multiple categories such as furniture, patio, lawn and garden, musical Instruments and gadgets, home improvement and art crafts, kitchen dinning & appliances, toys, games and baby and more.

Basis of preparation and consolidation

The consolidated financial statements include the accounts of 123Stores, Inc. and its wholly owned subsidiary 123Stores E Commerce Private Limited located in India. The consolidated financial statements have been prepared on a going concern basis, in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). All intercompany balances and transactions have been eliminated in the consolidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent liabilities in the consolidated financial statements and accompanying notes. Estimates are used for, but, are not limited to, estimation of sales return in subsequent period, provision for income taxes, and useful life of plant and equipment. These estimates are based on information available as of the date of the release of these financial statements; therefore, actual results could differ materially from those estimates.

Cash and cash equivalents

The Company considers all highly liquid investments purchased with original maturity of three month or less to be cash equivalents. Cash and cash equivalents, consists of cash with banks, prepaid cards and payment gateways and are stated at cost, which approximates its fair value.

Accounts receivable and allowance for doubtful accounts

The Company's accounts receivable consists of amounts receivable from various marketplaces against sale of products to customers. The respective marketplaces, collect cash from customers at the point of placement of order or shipment and periodically remits the amounts (after deducting relevant costs or fees) to the Company, based on their respective payment cycle.

The Company deals with reputed marketplaces such as Amazon, Ebay, Sears, NewEgg, etc. which enjoy high creditworthiness. Having regard to these factors, the Company does not provide for allowance for doubtful accounts. Further, there is also no historical evidence and/or trend of bad debt losses.



123Stores, Inc.

Notes to the Consolidated financial statements

(All amounts in US\$, unless otherwise stated)

Property and equipment and depreciation

Property and equipment are stated at historical cost net of depreciation. Depreciation on property and equipment is calculated on a straight line basis over the estimated useful lives of the assets as follows:

<u>Class of assets</u>	<u>Estimated useful life (in years)</u>
Furniture and fixtures	7 - 10
Office equipment	5
Computers and peripherals	3 - 5

Repairs and maintenance of property and equipment are charged to statement of income as incurred. Enhancement and improvements that extend the life of property and equipment are capitalized. Upon disposition, the cost and accumulated depreciation are deducted from the sale proceeds resulting in gains and losses which are recognized in the statement of income.

Intangible assets – internal-use software

Certain costs related to computer software developed or obtained for internal-use are capitalized or expensed in accordance with accounting standard codification or ASC Topic 350-40. During the year, the Company has recognized the costs associated with developing an artificial intelligence-based system developed to capture the demand data and adjust the storage & fulfilment locations with the help of combination of algorithms so as to optimize the number of locations and also able to optimize the quantities to be stored to reduce the storage & fulfilment costs. The costs capitalized in the financial statement under intangible assets amounts to US\$ 470,500. The Company will start amortising this cost once the development of the artificial intelligence-based system is complete.

Revenue recognition

The Company recognizes revenue only when all the following conditions are fulfilled:

- i> Persuasive evidence of an arrangement exists
- ii> Delivery has occurred or the services has been rendered
- iii> The fee is fixed or determinable
- iv> Collectability is reasonably assured

The Company recognizes net revenue from sales of products upon delivery to the customer. As the Company ships large volume of products through multiple carriers, actual delivery dates may not always be available and as such the Company estimates delivery dates based on historical data. Product revenue is recorded at the gross amount as the Company is the primary obligor with the customer and have latitude in establishing price and selecting products sold, discretion in selecting suppliers of products sold, maintain inventory risk from shipment through delivery date and upon accepting returns and bear credit risk. Net revenue includes shipping costs charged to the customer and are recorded net of taxes collected from customers, which are remitted to governmental authorities. Cash discounts, estimated returns and rebates are deducted from gross revenue in determining net revenue.

The Company records an allowance for returns based on current period revenue and historical returns experience. Revenue is deferred when cash is collected from the customer prior to the satisfaction of the revenue recognition criteria.



123Stores, Inc.

Notes to the Consolidated financial statements

(All amounts in US\$, unless otherwise stated)

Cost of goods sold

Cost of goods sold includes the cost of merchandise, buying costs and costs of the Company's distribution network including inbound freight charges, distribution facility costs, receiving costs, internal transfer costs. The Company earns rebates under various incentive programs which reduces the carrying cost of inventory and are recognized in cost of goods sold when the related inventory is sold.

Shipping and handling costs

Shipping and handling costs represents costs to ensure delivery of products to the customers. This includes all costs from picking the product to packing it and the outbound transportation logistics cost to ensure delivery of the products to the customer.

Inventories

Inventory consists of finished products, for sale to customers, held at various third party warehouses. The Company values inventory at the lower of cost or net realizable value. Cost of inventory consists of cost of product (net of supplier rebates) and inbound shipping and handling costs. Net realizable value is determined at market value less selling costs. As of March 31, 2018, the Company has provided for a valuation allowance of US\$ 74,441 in respect of diminution in the value of inventory.

Goods in transit

Goods in transit consists of products which have been shipped by the supplier but are in transit to the fulfillment centers and products that have been shipped by the supplier or the fulfillment centers but are in transit to the customers. Risk of loss and the transfer of title from the supplier to the Company occurs at freight on board shipping point and from the Company to the customers at point of delivery. As at 31 March 2018, goods in transit amounted to US\$ 9,893,161 and is recorded in inventories.

Sales and marketing expenses

Sales and marketing costs consist of advertising costs, marketplace fees and commission. Advertisement costs are incurred to bring new and repeat customers to the Company's website. Payment to various marketplaces are made in form of fees and commission, which forms part of the sales and marketing expense.

Concentration of credit risk

Financial instruments potentially exposing the Company to credit risk consists primarily of cash and cash equivalents, restricted cash and accounts receivable.

The Company maintains bank accounts with several banks as well as payment gateways. Domestic cash balances are covered by federal insurance limits. As of March 31, 2018, domestic balance in excess of federal insurance limits amounted to US\$ 2,417,535.



123Stores, Inc.

Notes to the Consolidated financial statements

(All amounts in US\$, unless otherwise stated)

The Company maintains some portion of its cash and cash equivalents in foreign currency. Deposits in foreign currency amounted to US\$ 64,358 as on March 31, 2018.

The risk with respect to accounts receivable is managed by the Company through its policy of monitoring the creditworthiness of its customers to which it grants credit terms in the normal course of business. As at March 31, 2018, amount receivable from one specific customer was US\$ 1,613,117 of the total accounts receivables, which was subsequently received in full.

Income taxes

Income taxes are accounted for in accordance with ASC Topic 740, *"Accounting for Income Taxes"* (*"ASC 740"*). Under ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on the deferred tax assets and liabilities of a change in tax rate is recognized in statement of income in the period that includes the enactment date.

The Company files its Federal, State and Foreign tax returns on an accrual basis.

The Company voluntarily opted for earlier adoption of *"Accounting Standards Update 2015-17, Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes"*, aimed at simplification of presentation of deferred income taxes. Consequently, the deferred tax assets/liabilities have been classified as non-current in the classified statement of financial position. As at March 31, 2018, the Company has accounted for net deferred tax liability of US\$ 816 and is recorded under other long term liabilities.

Fair value measurements

Fair value of financial assets and liabilities are defined at the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date (exit price). The Company is required to classify fair value measurements in one of the following categories:

Level 1 – inputs which are defined as quoted prices (unadjusted) in active markets for identical assets liabilities that the reporting entity has the ability to assess at the measurement date,

Level 2 – inputs which are defined as inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3 – inputs are defined as unobservable inputs for the assets or liabilities. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The Company measures its cash equivalents at fair value. The Company classifies its cash equivalents with level 1 because the Company values these investments using quoted



123Stores, Inc.

Notes to the Consolidated financial statements

(All amounts in US\$, unless otherwise stated)

market prices. The Company does not have any assets or liabilities classified as level 2 or level 3 financial assets.

The Company's financial instruments accounts receivable, accounts payable and accrued expenses are carried at cost, which approximates fair value due to the short term maturity of these instruments. The Company's long term debt is carried at cost and approximates fair value due to their variable interest rates, which are consistent with the interest rates in the market.

Foreign currency translation

The accounts of the foreign subsidiary are measured using the local currency (INR) as the functional currency. Assets and liabilities of the foreign subsidiary are translated at exchange rate in effect as of the balance sheet date. Revenue and expenses are translated at the average rate in effect during the year. Translation adjustment is recorded within accumulated other comprehensive income, a separate component of stockholders' equity.

3. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets as of March 31, 2018 consists of the following:

Advance to suppliers	\$	30,821
Accrued income		5,099
Other advances and short term deposits		29,493
Other current assets		111,306
Restricted cash		130,689
	\$	<u>307,408</u>

As of March 31, 2018, the Company had US\$ 130,689 that was restricted from withdrawal, held as guarantee against commercial card services provided.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of March 31, 2018:

Computer and peripherals	\$	127,920
Furniture and fixtures		164,450
Office equipments		87,794
		<u>380,164</u>
Less: Accumulated depreciation		130,544
	\$	<u>249,620</u>

The Company as of March 31, 2018 did not have any assets acquired under capital lease. Depreciation expense for the year was US\$ 72,769.



123Stores, Inc.

Notes to the Consolidated financial statements

(All amounts in US\$, unless otherwise stated)

5. INTANGIBLE ASSETS, NET

Other intangible assets, net	\$ 470,500
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6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of March 31, 2018 consists of the following:

Sales tax payable	\$ 19,967
Provisions for returns	16,023
Provision for income tax	903,872
Provision for employee compensation and related benefits	209,570
Other accrued expenses and current liabilities	1,277,256
	<u>\$ 2,426,688</u>

7. LONG TERM DEBT

The following table presents the long term debt of the Company for the year ended March 31, 2018:

Long term debt	\$ 12,193,899
	<u>\$ 12,193,899</u>

Senior secured committed revolving line of credit

In August 2015 (subsequently renewed in October 2017), pursuant to a business loan agreement between the Company and Citi Bank, N.A., the Company obtained a revolving line of credit from Citi Bank, N.A., with a limit of US\$ 5,000,000. The credit facility has been obtained at an agreed upon interest rate of LIBOR plus 1.25%, with the LIBOR index being one month, floating daily, and has a maturity of twelve months from the closing date renewable annually. The credit facility is supported by a Stand by Letter of Credit Facility. During the year, the Company has availed an advance of US\$ 2,500,000 from Citi Bank, N.A within the overall limit of US\$ 5,000,000.

In October 2016, pursuant to a revolver loan agreement between the Company and UPS Capital Corporation, the Company obtained a revolving line of credit from UPS Capital Corporation, with a limit of US\$ 8,000,000. The credit facility has been obtained at an agreed upon interest rate of Base Rate plus 1.25%, with the base rate linked to US prime rate as shown in The Wall Street Journal in US and has a maturity of three years from the closing date. The credit facility is supported by a lien on inventories and accounts receivables. During the year, the Company has availed an amount of US\$ 7,193,899 from UPS Capital Corporation.

The revolving line of credit contains certain covenants and the Company was in compliance with those covenants as of March 31, 2018.



123Stores, Inc.

Notes to the Consolidated financial statements

(All amounts in US\$, unless otherwise stated)

Basis of Classification

As per ASC 470 on "Debt", a short-term obligation shall be excluded from current liabilities if the entity intends to refinance the obligation on a long-term basis and the intent to refinance the short-term obligation on a long-term basis is supported by an ability to consummate the refinancing demonstrated by the conditions as specified in ASC 470-10-45-14.

The short term credit facility in the form of revolving line of credit availed from Citi Bank, N.A., having a maturity of 12 months from the closure date, is intended to be refinanced by a long term debt obligation from UPS Capital Corporation. Hence, the same has been classified under long term debt, as per guidance contained in ASC 470.

8. COMMON STOCK AND STOCKHOLDERS' EQUITY

As at March 31, 2018, there were 100,000,000 shares of common stock, each with a par value of US\$ 0.01, authorized, issued and outstanding. All the shares of common stock were held by the parent company, viz., IntraSoft Ventures Pte. Ltd. The common stockholders are entitled to dividends only if and when declared by the Board of Directors of the Company. No dividends were paid or declared on the common stock for the year ended March 31, 2018.

9. PROVISION FOR INCOME TAX

The components of provision for income tax are as follows:

Current tax

Federal	\$	900,763
State		27,414
Foreign		34,547
		<u>962,724</u>

Deferred tax

Deferred tax charge for the year		(27,064)
		<u>(27,064)</u>
	\$	<u>935,660</u>

The significant components of the net deferred tax liability consist principally of financial statement accruals not presently deductible for tax return purposes and depreciation. The Company's deferred tax assets and liabilities consisted of the following at March 31, 2018:

Non current deferred tax liabilities

Temporary differences	\$	24,861
Subtotal non-current deferred tax liability		<u>24,861</u>

Non current deferred tax asset

Temporary differences		24,045
Subtotal non-current deferred tax assets		<u>24,045</u>
	\$	<u>816</u>



123Stores, Inc.

Notes to the Consolidated financial statements

(All amounts in US\$, unless otherwise stated)

The amount of deferred tax liabilities (net) as at March 31, 2018 is disclosed under 'Other long term liabilities'.

Deferred tax assets are recorded for the estimated tax impact of temporary differences between the tax and books balances of assets and liabilities, and are recognized based on the enacted statutory rates for the year in which the differences are expected to be reversed. As of March 31, 2018, the Company did not have any evidence to believe that any deferred tax asset or a part thereof will not be realized.

The Company has not recorded deferred income taxes applicable on the undistributed earnings of foreign subsidiary of approximately US\$ 265,232 based on the management's presumption that such earnings will be indefinitely reinvested in foreign operations. If these earnings were remitted to the United States, they would be subject to U.S. income tax. The additional income tax that would arise on repatriation would be offset, in part, by foreign tax credits on such repatriation. However, it is impractical to estimate the amounts of net income and withholding tax that might be payable.

As of March 31, 2018 the Company did not have any material uncertain tax positions as provided in ASC 740 and accordingly, the Company has not recorded any liabilities due to uncertain tax positions.

The Company is not currently under examination by the Federal, State or Foreign Governments.

10. OPERATIONS, TECHNOLOGY, GENERAL AND ADMINISTRATIVE EXPENSES

The components of operations, technology, general and administrative expenses are as follows:

Employee benefits and related compensation	\$	1,815,870
Technology expenses		476,917
Travelling expenses		145,223
Office expenses		182,038
Communication expenses		16,426
Legal and professional charges		212,082
Miscellaneous expenses		115,437
	\$	<u>2,963,993</u>

11. COMMITMENTS AND CONTINGENCIES

Legal proceedings

The Company from time to time subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. In addition, third parties may from time to time assert intellectual property infringement claims against the Company in the form of letters and other communications. While the outcome of pending claims against the Company cannot be predicted with certainty, the Company does not believe that the outcome of any pending litigation will have a material adverse effect on its financial condition or operating results.

